C E N T R A L   I N T E L L I G E N C E   A G E N C Y

22 November 1960

SUBJECT: NIE 30-60: MIDDLE EAST OIL

THE PROBLEM

To estimate probable trends affecting Middle East oil and their political and economic implications over the next five years or so.*

SCOPE NOTE

This estimate does not attempt to give detailed information on the production and consumption of Middle East oil; as such information is already available in various forms. What we propose in this estimate is a nontechnical summary of major

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* The term Middle East is here used to include Egypt and the Arab States east of Suez, Iran, and Israel. Developments in Libya and other North African areas are considered only as they affect the Middle East.

~~SECRET~~

trends affecting Middle East oil and an assessment of their broad political and economic implications, including the problems likely to be raised for US interests. We avoid specific discussion of the strategic importance of oil and of wartime contingencies. We believe, for at least the period of this estimate, the picture will not be significantly affected by the development of nuclear power or other new sources of energy.

CONCLUSIONS

A. A major factor in the world oil picture for the next several years will be the continuing surplus of producing capacity. This will be added to by new sources in North Africa and by expanded Soviet exports, as well as by increased capacity in the Middle East. As a result, Western Europe will draw a somewhat smaller percentage of its petroleum requirements from the Middle East. Nevertheless, it will remain heavily dependent on the area. The oil-producing Middle Eastern countries are likely to continue to get enough revenue to support substantial development programs. Individual sources of oil may be shut down and transit facilities may be blocked temporarily, but we believe a lasting areawide breakdown is unlikely during the period of this estimate. (Paras. 6, 29-30, 35)

B. Growing pressures from the producing countries will probably result in major changes in the present concession pattern of Middle East oil. The 50/50 profit-sharing formula now standard in the industry will probably give way and greater participation by local governments in the management of the oil companies is likely. We do not believe, however, that large scale nationalization of industry facilities is likely or that the companies will feel compelled to liquidate their interests in the area during the period of this estimate. (Paras. 19-25, 31-33)

C. By 1965 the USSR will probably control about seven percent of the oil moving in international trade. This will enable the Soviet Union to upset markets in various individual consuming countries and even to displace Western companies in some smaller markets. Together with an expanded program of Soviet technical and economic assistance for the development of new facilities in Asia and Africa, it will make the USSR a force to be reckoned with in the international petroleum field. We do not believe, however, that the USSR will be able to upset the preponderant position of the Western companies nor destroy the present overall pattern of the Middle East oil industry. Even a Communist takeover in one of the producing countries would not necessarily result in a refusal to sell the country's oil to the West. (Paras. 11-18, 34)

D. On balance, we think the odds are against any developments in regard to Middle East oil critically detrimental to US national interests during the period of this estimate. Nevertheless, the US will be faced with a number of broad problems. Among these will be determination of the balance of interest between the desirability of developing alternate sources of oil to meet Western Europe's needs and the importance of assuring Middle Eastern countries of sufficient oil revenue to avoid instability; resolution of possible conflicts of interest between the US and its Western allies, especially the UK and France; and the difficulty of determining in particular circumstances whether and how US strategic and commercial interests coincide or conflict. (Paras. 34-39)

DISCUSSION

I. THE IMPORTANCE OF MIDDLE EAST OIL

To the Free World

1. Two geographical areas, the Middle East and the Western Hemisphere, provide between them 94 percent of all oil produced outside the Soviet Bloc.1/ The Western Hemisphere consumes most of its own production. All but a small part of Middle East oil is exported. In 1959, Middle East oil constituted 51 percent of all Free World oil moving in international trade. Sixty-one percent of Middle East exports went to Western Europe to supply 73 percent of that area's total needs. Most of the rest went to Asia and the Far East where it filled 67 percent of that area's requirements. The 540,000 barrels a day (b/d) which flowed to the Western Hemisphere represented only five percent of that area's total consumption.2/

2. The Middle East's key role in world oil stems partly from the richness of its petroleum resources, partly from the

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1/ See Appendix I: "Free World Oil Production and Reserves by Areas and Countries, 1959."

2/ Tonnage per year may be calculated roughly by multiplying b/d by 50.

long-established pattern of efficient exploitation of these resources, and partly from its central geographic location. Middle East reserves are tremendous, almost 70 percent of the Free World's proved total. Productivity is high and hence costs are low. In 1959, oil production in the Middle East averaged 4,700 b/d per well, compared with 295 b/d in Venezuela, and 12 b/d in the US. Heavy investment in pipelines and tankers has produced a surplus of low cost carrying capacity. Concession areas have generally been large; the terms of the concessions have been similar; and most of the concessions have been in the hands of companies owned by several large American, British, and French firms.* The resulting efficiencies and economies, plus the steadily increasing demand for oil, have provided both the companies and the host countries with substantial profits.

<u>To the Middle East</u>

3. In an area whose other natural resources are slight, the discovery and exploitation of petroleum has had an enormous economic, social, and political impact. To the oil-producing

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* Principal companies and their holdings are outlined in Appendices III and IV.

countries the revenues from the production of oil are the key economic reality. Oil is the one indigenous source which can pay for the development programs, buy the arms, and acquire the myriad other technical wonders and luxuries of the twentieth century. Oil revenues comprise 95 percent of total government receipts in Kuwait, 80 percent in Saudi Arabia, 66 percent in Iraq, and about 50 percent in Iran. Additional benefits are derived from customs receipts on goods imported with oil-originated funds and foreign exchange obtained from local expenditures by the oil companies. Of the transit countries, the UAR derives the most substantial benefits from tanker tolls in the Suez Canal and from pipelines crossing Syria. Lebanon and Jordan get relatively small transit revenues.

4. All of the producing countries in the Middle East are heavily dependent on oil revenues. They could, to a varying degree, absorb a relatively small reduction in income. If they were to lose most or all of their oil revenues, all would be seriously affected; the impact would depend largely on the availability of alternate sources of revenue.

5. Deprived of oil revenues, Saudi Arabia would face economic ruin and probably political chaos; the country has built up no

money reserves and it would be extremely difficult and probably impossible for the government to remain effective for more than a few months. Kuwait, possessor of the world's largest proven oil reserves, equal to those of the entire Western Hemisphere, is totally a creation of the oil boom. The Ruler has invested large sums in the UK and Kuwait could exist for a considerable time on these investments if present revenues ceased. However, these investments would probably be blocked by the British Government in the event of an ouster of the Kuwait Oil Company. Even if the funds remained unblocked, the development program would gradually grind to a halt and business would begin to stagnate. Iran and Iraq possess other sources of revenue, but would face serious economic dislocation, as well as drastic reductions in their development programs and general governmental activity if oil revenues were to be shut off. In all these countries, substantial and prolonged deprivation of oil revenue, particularly if no resumption were in sight, would, we believe, generate sufficient dislocation and unrest as to make the fall of their governments likely. In a similar situation, the economy of the UAR would be affected seriously, although probably not so much as to threaten political stability.

II. CHANGES IN THE WORLD OIL PICTURE

Developments in the Industry

6. World consumption of oil has increased greatly since World War II. In Western Europe, requirements grew by about 13 percent annually between 1946 and 1959; for the Free World as a whole the rise was over 7 percent annually. However, Free World producing capacity has expanded even more rapidly, especially in recent years. As a result, there is now a substantial excess of producing capacity over consumption. This situation is expected to continue into the mid-1960's and possibly beyond. During this period, Western European requirements will level off (to perhaps an increase of 7 percent annually); total Free World demand will rise somewhat less rapidly than in recent years; and producing capacity will continue to grow with the development of new sources of petroleum in the Middle East and elsewhere.* Major discoveries in Algeria and Libya alone are expected to put 1,000,000 b/d on the market by 1965. Soviet exports to the Free World will add to available supplies. Transportation, not long ago a limiting factor in the

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* During this period, the consuming areas may begin to receive supplies of natural gas from overseas sources as technological developments provide for new transportation facilities. Eventually world energy supplies will be supplemented by a variety of new sources: shale oil and tar sands, wind, solar, cellular, and nuclear power.

movement of oil, is more than adequate to meet anticipated demands for the 1960's. Free World tanker surplus is substantial and Middle Eastern pipelines are even now not working at capacity.

7. In recent years a number of new companies have entered the industry in North Africa and the Middle East. New sources of supply have been discovered; and additional countries have become producers. Any oil that is discovered by the newcomers will compete increasingly with present Middle East production. In some cases, especially in Africa and Asia, there will be a temptation for the consuming areas to forsake traditional suppliers in favor of a newcomer who can be persuaded to give the consuming country markedly better terms or a share in local refining and marketing operations. Finally, of course, the more liberal terms the newcomers have offered the producing countries are adding to the pressure on the existing pattern of concessions.

8. The oil industry will be increasingly affected by the import policies of the consumer countries. Japan is already taking measures to ensure domestic markets for oil produced abroad by its nationals. Italy will probably eventually do likewise. France has already persuaded foreign-owned refining and marketing organizations within its borders to accept French-owned Algerian crude. As more

and more Algerian crude becomes available, Paris may revive its now quiescent efforts to get Common Market preference for it. West Germany may also seek to ensure a place in its domestic market for any crude that may be brought in by the West German companies which are now participating in exploration abroad. The US has for some time had import controls, though these are designed to encourage domestic production rather than protect local markets for oil produced abroad by US nationals.

9. Foreign exchange problems will also continue to affect the oil industry to a considerable degree. The foreign exchange positions of the Western European importing countries have improved substantially in the past several years, and the extent to which oil must be paid for in dollars or other currencies is now a less important factor than formerly. Nonetheless, most governments are still eager to husband their foreign exchange. Moreover, they will take advantage of offers by new producers selling crude at a sharp discount and be tempted by deals involving soft currency, barter exchanges, or government to government transactions.

10. There is little likelihood that the expanding market east of Suez, will provide an outlet for much of the Middle East's surplus producing capacity. Consumption in Asia and the Far East is

expected to increase at about seven percent during the next five years; but in absolute terms, this means only an average of about 130,000 b/d annually. There is a chance that these increased requirements will be partially covered by such developments as expanded production in Indonesia or new discoveries in India. Moreover Soviet oil can be expected to be sold in increasing quantities in this area, as already evidenced by shipments to Japan and India.

The Soviet Challenge

11. The USSR exported considerable amounts of petroleum before World War II(reaching a peak of about 120,000 b/d in 1932). Exports ceased during the war, and the Soviet Bloc did not re-enter the international oil market on a commercial scale until 1955. Since then, Bloc exports, which are almost entirely of Soviet origin, have increased rapidly, rising, for example, from about 230,000 b/d in 1958 to 360,000 b/d in 1959.* This year, the Bloc is expected to export about 450,000 b/d.

12. Soviet Bloc exports now go to at least 28 Free World countries. The USSR has used its petroleum exports to obtain

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* See Appendix II: "Estimated Soviet Bloc Oil Exports to the Free World, 1959"

capital equipment in Western Europe and Japan. Where politically expedient, as in India and Cuba, it has accepted payment in soft currencies or commodities. The private companies which control Free World oil are especially ill-equipped to cope with the latter kind of competition. The Bloc has also supplied extensive technical services and equipment for exploration activities in the UAR, Iraq, and India.

13. Soviet activities in international oil will almost certainly expand further in the next few years. The current Seven-Year Plan goal for petroleum production in the Soviet Union in 1965 is about 4.8 million b/d, almost double 1959 production. This quantity would provide the USSR with an exportable surplus of about 1 million b/d. About half of this is likely to be needed to meet the requirements of other Bloc states. Hence, the volume available for exports to the Free World would be about 500,000 b/d, approximately the same as in 1960.*

* All estimates of future Soviet exports to the Free World are tentative because of the lack of reliable information on longer term Bloc production and requirements, especially in regard to Communist China. The present figures are based on the assumption that Communist China, which now produces about 104,000 b/d and imports about 80,000 b/d (almost entirely from the USSR), will in 1965 produce about 360,000 b/d and import 100,000 b/d from the USSR. While the figures in paragraph 13 represent our best estimate at this time, they could be upset by a number of factors, notable among them a greater than anticipated increase in Eastern European Satellite or Chinese Communist requirements or a less than expected expansion of production in Communist China.

14. However, recent information, supported by Soviet performance during the past two years, indicates that production in 1965 may exceed Plan goals and could run as high as 5.6 million b/d. Of this, we estimate that as much as 1 million b/d would be available for export to the Free World. Whether or not the USSR will indeed exceed its production goal for 1965 and thus have this quantity of oil available for export, will, of course, depend on its ability to develop refinery capacity, internal transport, and tanker lift, as well as to open new markets for such oil. There is evidence that the Soviet Union has embarked on a program to do so.

15. We estimate that in 1965 Soviet oil will constitute about seven percent of the total international movement into Free World markets. We do not believe that this of itself will upset the preponderant position of the Western companies in the international trade nor destroy the present overall pattern of Middle East oil industry. It will, however, enable the Soviet Union to compete actively in the Free World market to the detriment of Middle East oil and to upset markets in various individual consuming countries. In small markets, the USSR could even displace Western oil companies. In a situation of continuing worldwide surplus, a growing influx of Soviet oil is likely also to spur further price cuts with a consequent disrupting influence on relations between the Middle

Eastern governments and the Western companies. Moreover, an expanded program of technical assistance for the development of new producing and refining facilities will probably increase Soviet leverage in various underdeveloped countries. All this will make the USSR a force to be reckoned with in the international petroleum field.

16. For the next few years at least, the USSR's use of its influence for political purposes will probably be limited to some degree by its desire to derive maximum economic benefits for itself from its oil exports, which are presently its largest single earner of foreign exchange. It will also consider the possibility of arousing hostile sentiment among the Middle East countries if Soviet oil appears to be usurping foreign markets from Middle East oil. Even so, Soviet activities in this sensitive field will almost certainly be directed to a considerable extent against Western interests. In the oil-producing areas, the USSR is likely to encourage nationalist sentiment to make increased demands on the established companies. In the consuming areas it will seek in various ways to impinge on Western markets and to promote its own influence in the countries concerned.

17. We believe that for some time to come the USSR will neither wish nor be able to assume the political and economic burdens that would be involved in taking over responsibility for the total oil industry in the area. However, in the event of withdrawal or expulsion of Western oil interests from any one country, such as occurred in Iran under Mossadegh, the Soviet Union probably could provide enough economic support of one kind or another to prevent serious dislocations in the economy of the affected country.

18. In terms of physical capability, the USSR will soon, if it does not already, have sufficient transporting and marketing facilities to move and sell most of the production of one or more of the smaller Middle East producers, say Bahrein or Qatar. By the end of the period of this estimate, it may even have developed sufficient facilities to transport and market most of the oil from one of the larger producers, e.g., Iran, Iraq, or Saudi Arabia. We believe it unlikely, however, that the Soviet Union actually will undertake to do either. British political influence will probably continue to make the smaller producers in accessible to the USSR; and, except in unusually favorable circumstances, the USSR is apt to be inhibited from assuming responsibility for

disposal of the oil of one of the major producers because of the formidable political, economic, and technical problems involved, as well as Western opposition.

III. MIDDLE EAST DEVELOPMENTS

National Aspirations

19. The prospects for a continuing world oil surplus have introduced new problems into the relationship between the companies and the oil-producing countries. The governments of the latter are most immediately concerned with problems of revenue -- revenue to add to the power and prestige of the ruling groups, and, in most cases, to support economic development programs. In the past the various producing countries have taken advantage of each others' difficulties to increase their own oil profits. The Arab states were happy to see their oil fill the gap created by Mossadegh's shutdown of Iranian oil. Iran in turn profited when the flow of Arab oil was disrupted by the 1956-1957 Suez difficulties. More recently, however, all of the producing states have seen further increases in their revenues threatened by two major reductions in

the posted price of crude oil.* They responded in Baghdad in September 1960 by setting up with unusual speed and cooperation an Organization of Petroleum Exporting Countries (OPEC) whose demand for a voice in pricing was strongly supported by the Beirut Oil Congress in October 1960.

20. For some years there have been other deep and troublesome stirrings in the producing countries. These are based partly on the concept that the oil beneath their territories is a national patrimony which will not last forever and which is being exploited by the Western oil companies under unjust arrangements made when the area and its rulers were under the political domination of the West. From this concept the idea is derived that the national sovereignty and national interests of the contracting states should override the legal rights and commercial interests of the private companies. These feelings are shared even by many members of conservative groups, and they are deeply and widely held among most other politically conscious elements in the area. Out of them have grown a number of demands aimed at increasing local control of oil

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* In the Middle East, a producing state's revenue is calculated on the basis of posted prices, not actual selling prices.

operations in addition to -- and sometimes even apart from -- increasing local profits. In addition, local resentment is increased by the rising conviction that ruling groups, such as that in Saudi Arabia, are squandering the oil revenues without due regard for the welfare of the people as a whole.

21. In their mildest forms, the demands for change include replacement of foreign staff of the oil companies with locals, transfer of company headquarters to the producing country, supply by the companies of technical and welfare services only remotely connected with the oil business, and more rapid relinquishment of parts of the concession areas.* There will be increasing pressure on the oil companies on all these issues everywhere in the area. Most of the demands of this type are considered negotiable by the companies, however, and it is unlikely that any widespread deadlock will develop over them alone.

22. A more important area of pressure during the next few years will be the question of profit-sharing. Few producing countries regard the 50/50 formula which is now standard in the industry as equitable. In addition, these countries believe that

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* The concessions usually cover large areas and generally provide for the gradual relinquishment of areas which the concessionaire is not exploiting.

the ~~countries~~ companies are constantly seeking to reduce the countries' share through manipulation of prices and exorbitant claims for amortization and expenses. Demands for upward revision of the formula will, of course, be spurred by the fact that some of the new companies are offering higher percentages of profits to the host countries.

23. Other aspirations pose an even more direct challenge to the companies. Governments of some producing countries are showing increasing interest in participation in ownership and management of the producing companies. Apart from the additional profits they would receive as stockholders, this would give them a greater voice in such questions as how much oil should be produced and to whom it should be sold. It would also bring them in closer touch with the industry as a whole and would, they hope, enable them to influence international activities now beyond their control. National participation is provided for in recent ventures by Italian, American, and Canadian companies in Iran, and will almost certain eventually appear as a demand in negotiations for revision of older concessions.

24. The most ambitious of local aspirations, put forward chiefly by Saudi Director of Petroleum Abdullah Tariki, demands

that all operations from the producing well to the gasoline pump be handled by integrated companies, in the management and profits of which the host governments would have a share. This goes considerably beyond the other schemes, since it would give the producing governments a share in control over company facilities and operations beyond their own borders. The threat of nationalization, which the area governments have always seen as their weapon of last resort in dealing with the companies, could then extend to the whole integrated company and its facilities inside and outside the producing country. The Japanese company, which was the first to accept this principle in its concession for the offshore areas in the Kuwait-Saudi Arabia Neutral Zone, has already struck oil in promising quantities. If, as appears likely, the Japanese company is able to operate successfully, the pressure for integration elsewhere is likely to increase rapidly.

25. Recent developments have given new impetus to discussions of cooperation between producing states. Arab oil experts have long stressed the desirability of collaboration among themselves and with non-Arab producers, such as Iran and Venezuela. An Arab tanker fleet and an Arab pipeline have been discussed, but no progress has been made to translate these schemes into action. We do not

think that, for the next several years at least, any effective joint action by the producing states is likely to take place -- chiefly because of mutual jealousy and suspicion and because of competing economic interests. There is a possible exception to this in the field of pricing. Being unable to accomplish anything individually, the producing states will probably work more effectively through OPEC to bring pressure on the companies than they have in the past. We doubt that they will be able to agree on a workable program for prorating production, the only practical way for them to control prices, but they are likely to succeed in influencing the companies' policies to some degree.

Company Reactions

26. The attitudes, intentions, and capabilities of the big international oil companies in regard to the pressures against them are not easy to assess. The position of the companies is strong in many ways. They have developed and control the vast and complex apparatus in Western Europe, Africa, Asia, and America through which Middle East oil is actually marketed. This apparatus is beyond the physical control of the producing countries. They cannot tax it, nationalize it, or shut it down. The companies alone have the

enormous capital and technical ability required for the heavy development and research activities required in every phase of the oil industry. The negotiating positions of most of the European companies are strengthened by the fact of their government's participation in their ownership and by the importance which their governments place on continued access to Middle East oil.* In addition, the companies can exert great influence -- especially in a surplus market -- by adjusting their off-takes from the various producing countries.

27. At the same time, the companies labor under major disadvantages. However benign or constructive their policies may be, they are inextricably linked in the Middle Eastern mind with Western imperialism and are subject to political as well as economic pressures. So strong is the bias against the companies that some local elements are likely even to be susceptible to Communist arguments that Soviet activities in the international oil field

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* This is especially true of the British Petroleum Company, in which the UK Government has majority ownership and which in turn holds major interests in Kuwait Oil Co., Iraq Petroleum Co., and the Iranian Consortium. While the UK is less dependent financially on Middle East oil now than some years ago, oil revenues are still valuable economically and access to Middle East oil remains important strategically. With the coming into production of the Algerian fields, French reliance on Middle East oil is declining.

(which will almost inevitably be detrimental to Middle Eastern producers) are to be welcomed because they will help break the power of the Western monopolies. Even well-informed local officials and political leaders fail to appreciate the intricacy and complexity of the oil industry and underrate the difficulties which they would encounter in trying to run an international oil business. Finally, of course, the international oil industry is a highly competitive one, and there is a limit to how far the companies can or will go in preserving a common front.

28. There is talk among company executives, and some evidence in company activities, of a new "tough" line toward local demands. The Trans Arabian Pipeline* (TAPLINE) appears prepared to close down rather then yield to demands for higher transit fees. The Iraq Petroleum Company temporarily reduced its off-take from Basra because of a heavy new port tax imposed there by the Iraqi Government. The established companies have rejected requests from the producing countries for a voice in pricing, and refuse to consider integration. They view the 50/50 profit-sharing formula as a benchmark of stability and insist that breaching it would lead to a continuous spiral of governmental demands. However, the history of negotiations in the

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* TAPLINE's ownership is identical with that of the Arabian American Oil Company (ARAMCO).

Middle East shows that the companies have time and again given in to or compromised substantially with demands which they first rejected as completely unacceptable.

IV. THE OUTLOOK

29. A highly important factor in the world oil picture for the next several years will be the continuing surplus of producing (and, secondarily, transporting) capacity. Because of the numerous uncertainties involved, political as well as economic and technical, it is difficult to determine precisely how this surplus will affect the Middle East. One thing is clear. The great reserves which the area possesses will continue to make it a major factor in world oil. Its exports to Western Europe will almost certainly continue to increase gradually in absolute terms as Western European consumption expands. However, with North African and Soviet oil playing a larger role in the international oil trade, its share of the Western European market is expected to decrease from 73 percent of the total in 1959 to an estimated 59 percent in 1965.

30. While Middle East production is likely to continue to rise slowly for at least the next five years, the rate of increase will be slower, and the halcyon days of spectacular annual increases

in revenue are probably over for the Middle Eastern countries. Revenues are apt to grow only modestly and new rounds of price cuts -- which are by no means unlikely -- could even lead to some diminution in the present level of revenue. Barring such unlikely contingencies as widespread shutdowns or large-scale destruction of oil producing and transporting facilities, however, we believe the odds are against major decreases in the present levels of revenue -- chiefly because Western governments, the oil companies, and most influential elements in the producing countries are well aware of the disastrous consequences.

31. Pressures from the producing governments on the companies will grow heavier, and major changes in the present concession pattern are likely. The 50/50 profit-sharing formula will probably give way in the next five years -- both because there may be no other way to keep revenues up and because the formula has already been breached in Venezuela, Iran, and the Kuwait-Saudi Arabia Neutral Zone. The companies are also likely to permit over a period of time a larger participation of the local government in management of producing companies. They will resist vigorously the demand for integrated companies, chiefly because most of the present producing companies are merely instrumentalities of the parent companies set

up for the purposes of exploration and exploitation. For them to engage in marketing would place them in direct competition with the present parents. Even here, however, it is possible that eventually new limited regional refining, transporting, and marketing organizations including local interests may emerge.

32. We do not believe that large-scale nationalization of existing oil company facilities is likely during the period of this estimate, although threats of such action will probably be used from time to time for purposes of pressure. The governments of the producing countries remember the experience of Mossadegh in Iran, and they are unlikely to emulate him unless they become extremely aroused emotionally or come to believe that their loss of revenue would be made up by the Soviet Bloc. However, there may develop a kind of "creeping" nationalization under which the companies gradually retreat to a position where they are little more than managing agents of the local governments. We think the odds are against even this going very far in the next few years.

33. In the past the situation usually stabilized for some time once a new pattern in government-company relationships was established. This may happen again on a basis of greater government profits and more government participation in control. However,

these periods of quiescence, if they come at all, are likely to be briefer and briefer. At some time, the companies may come to feel that the oil business in the Middle East has become so hazard-ridden and profits so marginal that they may as well liquidate their interests there and concentrate elsewhere. We believe that time is beyond the period of this estimate.

34. On balance, we think the odds are against any development in regard to Middle East oil critically detrimental to US national interests in the next few years. Actual physical seizure of the area by the USSR is unlikely short of a general war. Soviet mischief-making will continue and could become dangerous in specific cases, e.g., a Communist-exploited upheaval in Iran followed by abrogation of the consortium agreement. However, even a Communist takeover in one of the producing countries would not necessarily result in a refusal to sell the country's oil to the West.

35. Under these circumstances, Western Europe will probably continue to get as much oil as it needs from the Middle East while developing alternate sources west of Suez. The Middle Eastern countries are likely to continue to get enough revenue to support substantial development programs. Temporary shutdowns of individual

sources of oil may occur as a result of deadlocks in negotiations, or more likely, political upheavals. Transit facilities may also be blocked, especially in the event of another outbreak of the Arab-Israeli conflict; but we believe a lasting areawide breakdown in the Middle East oil situation is unlikely, at least for the period of this estimate. Nevertheless, the balance of interest between the desirability of developing alternate sources of oil to meet Western Europe's needs and the importance of assuring Middle Eastern countries of sufficient oil revenues to avoid instability will continue to pose problems for US policy.

36. Other problems may emerge from possible conflicts of interest or objectives between the US and its Western allies, especially the UK and France. The UK has in the past considered it essential both strategically and economically to retain a measure of political control over the oil-producing areas. We believe the British now regard this policy as outmoded in large measure, but it will remain possible that in a crisis situation, they might feel compelled to exert physical control over Kuwait. France may come to feel that increasing availability of oil from Algeria enables it to take a harder line with the Arab states, who are generally hostile to French interests as a result of France's support of Israel and suppression of the Algerian rebels.

37. Another set of problems derived from the difficulty of determining in particular circumstances whether and how US strategic and commercial interests coincide or conflict. For example, the question of US import restrictions will almost certainly come up again during the period of this estimate, facing the policy maker with the necessity of weighing the relative importance of promoting a vigorous US domestic petroleum production against the advantages to be derived in the Middle East through increased US imports from that area. Likewise, there will be questions involving the desires of certain allied nations, e.g., Japan and Italy, to adopt import policies designed to give preference to oil from producing companies run by their own nationals to the detriment of the British and American companies and to the general principles of reciprocal trade.

38. Over the longer term, even broader problems of this nature are likely to emerge. It is quite possible that sufficient supplies for Western Europe and sufficient revenues for the Middle East could be achieved under arrangements where the present concessionary interests of the international oil companies in the area are eliminated and Western companies act at most only as agents of the producing countries. Such a development would probably reduce the political problems which now confront the West and its relations

with the producing countries -- some of which stem from the close association in the Middle Eastern mind of the companies with Western governments.

39. Nevertheless, a surrender or large-scale withdrawal of Western company interests under pressure would initially at least be regarded as a setback for Western prestige. Liquidation of the role traditionally played by the Western companies -- even if they were subsequently replaced by other arrangements -- would almost certainly result in some dislocation in the oil picture which would lend itself to Soviet exploitation. Economic factors of major interest to the US would also be involved, e.g., the loss of much of the substantial increment to the balance of payments which the Western oil companies now earn through their operations in the area.

APPENDIX I

FREE WORLD CRUDE OIL PRODUCTION AND RESERVES BY AREAS AND COUNTRIES, 1959 (in barrels)

Area	Production B/D*	Percentage of Free World Production	Estimated Proved Reserves	Percentage of Reserves
MIDDLE EAST				
Bahrain	45,000	0.3	225,000,000	0.1
Egypt	57,000	0.3	500,000,000	0.2
Iran	928,000	5.6 — 5	35,000,000,000	13.3 — 3
Iraq	852,000	5.1 — 6	25,000,000,000	9.5 — 5
Israel	2,000	insig	40,000,000	insig
Kuwait	1,385,000	8.2 — 3	62,000,000,000	23.6 — 1
Neutral Zone	116,000	0.7	6,500,000,000	2.5
Qatar	169,000	1.2	2,500,000,000	1.0
Saudi Arabia	1,094,000	6.6 — 4	50,000,000,000	19.0 — 2
Other	none	0	101,000,000	0.1
Subtotal	4,648,000	28.0	181,866,000,000	69.3
WESTERN HEMISPHERE				
United States	7,054,000	42.3 — 1	33,500,000,000	12.7 — 4
Venezuela	2,771,000	16.7 — 2	18,000,000,000	6.8 — 6
Canada	503,000	3.0	4,590,000,000	1.7
Other	795,000	4.8	6,436,000,000	2.4
Subtotal	11,123,000	66.8	62,526,000,000	23.6
ASIA AND FAR EAST				
Indonesia	381,000	2.3	9,000,000,000	3.4
British Borneo	112,000	0.7	500,000,000	0.2
Other	45,000	0.3	746,000,000	0.3
Subtotal	538,000	3.3	10,246,000,000	3.9
NORTH AFRICA				
Algeria	28,000	0.2	5,000,000,000	1.9
Libya	none	0	1,500,000,000	0.6
Other	2,000	insig	9,000,000	insig
Subtotal	30,000	0.2	6,509,000,000	2.5
WEST AFRICA	24,000	0.1	265,000,000	0.1
EUROPE	262,000	1.6	1,496,000,000	0.6
TOTAL FREE WORLD	16,625,000	100.0	262,908,000,000	100.0

(See next page)

Note and footnote for Appendix I

NOTE: Sino-Soviet Bloc production in 1959 was about 2.9 million b/d, of which the USSR provided about 2.6 million b/d or 15.4 percent of total Free World production. No figures are available for Soviet reserves.

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* b/d: barrels per day. The US barrel has a volume of 42 US gallons.

APPENDIX II

ESTIMATED SOVIET BLOC OIL EXPORTS TO FREE WORLD, 1959

(Barrels)

Europe	
Austria	5,796,000
Belgium*	4,526,000
Denmark	613,000
Finland	13,440,000
France	6,928,000
Germany (West)	13,739,000
Greece	4,081,000
Iceland	2,570,000
Italy	23,710,000
Netherlands*	9,818,000
Norway	2,394,000
Sweden	10,694,000
Switzerland	650,000
United Kingdom	825,000
Yugoslavia	2,942,000
Near East	
Algeria	186,000
Lebanon	431,000
Morocco	469,000
Tunisia	100,000
UAR	19,150,000
Latin America	
Argentina	3,526,000
Brazil	431,000
Uruguay	3,672,000
Others	
Afghanistan	307,000
Japan	1,000,000
TOTAL	131,998,000 (362,000 b/d)

(footnote on next page)

Footnote to Appendix II

* Figures for Belgium and the Netherlands include petroleum imported for transshipment to other Free World countries. Actual imports for domestic consumption were:

Belgium:	3,623,000
Netherlands:	519,000

APPENDIX III

INTERNATIONAL PETROLEUM COMPANIES WITH SHAREHOLDINGS IN THE MIDDLE EAST

NOTE: Virtually all petroleum concessions are held by "producing companies," e.g., the Arabian American Oil Company, Kuwait Oil Company. These "producing companies" are owned by combinations of large international oil companies, generally referred to as "parent companies." Oil is extracted by the "producing companies" and sold to the parents which in turn transport, refine and market it. This appendix lists the most important of these companies. Appendix IV shows ownership of the principal producing companies.

MAJOR COMPANIES

US Controlled

Standard Oil Co. (New Jersey)
Socony Mobil Oil Co.
Gulf Oil Corp.
Standard Oil Co. (California)
The Texas Co.

European Controlled

Royal Dutch/Shell Group
British Petroleum Co. Ltd.
Cie. Francaise des Petroles

SMALLER COMPANIES

US Controlled

American Independent Oil Co.
Getty Oil Co.
Richfield Oil Corp.
Cities Service Co.

NEWCOMERS

US Controlled

Standard Oil Co. (Indiana)

Other

Ente Nazionale Idrocarburi (Italian)
Japan Petroleum Trading Co. Ltd.

MAJOR

a. <u>Standard Oil Company (New Jersey)</u>

i. 30 percent in Arabian American Oil Company (ARAMCO).

ii. 11.87½ percent in Iraq Petroleum Company Ltd. (IPC) and its associated companies in Iraq, Qatar, Trucial Coast and Oman.

iii. 7 percent in Iranian Oil Participants Ltd.

This is the world's largest oil company with producing properties, refineries, and marketing outlets throughout the world. Its interests include concessions in Libya where it has had major discoveries and in Algeria.

b. <u>Socony Mobil Oil Company</u>

i. 10 percent in Arabian American Oil Company.

ii. 11.87½ percent in Iraq Petroleum Company Ltd., and its associated companies.

iii. 7 percent in Iranian Oil Participants Ltd.

Another major international oil company operating in all branches of the petroleum industry throughout the world. Its interests include concessions in Libya where it has had a number of discoveries and in Algeria.

c. <u>Gulf Oil Corporation</u>

i. 50 percent in Kuwait Oil Company Ltd.

ii. 7 percent in Iranian Oil Participants Ltd.

This company also operates on a worldwide basis. It holds concessions in Libya where it has had a number of discoveries.

d. <u>Standard Oil Company of California</u>

i. 30 percent in Arabian American Oil Company

ii. 7 percent in Iranian Oil Participants Ltd.

iii. 50 percent in Bahrain Petroleum Co. Ltd.

This is another fully integrated international oil company. In the Eastern Hemisphere it operates through the California Texas Corporation (Caltex), in which it has a joint interest with the Texas Company. Its holdings include concessions in Libya, where it has had a number of discoveries, and in Algeria.

e. <u>Texaco</u>

This leading international oil company has shareholdings in the Eastern Hemisphere separate from, but identical to, those of Standard Oil Company of California.

f. Royal Dutch/Shell Group

i. 23.75 percent in Iraq Petroleum Company Ltd. and its associated companies.

ii. 14 percent in Iranian Oil Participants Ltd.

iii. 100 percent in concession covering offshore areas of Qatar.

This aggregation of British and Dutch-owned companies is one of the world's major producers, refiners, and marketers of petroleum, with extensive holdings in Venezuela, Indonesia, and the US. It holds interests in concessions in Algeria jointly with French firms on some of which major discoveries have been made. Concessions are also held in Libya where it has experienced some successes.

g. British Petroleum Company Ltd.

i. 40 percent in Iranian Oil Participants Ltd.

ii. 23.75 percent in Iraq Petroleum Company Ltd. and its associated companies.

iii. 50 percent in Kuwait Oil Company Ltd.

iv. 66 2/3 in Abu Dhabi Marine Areas Ltd. and Dubai Marine Areas Ltd. both of which hold offshore concessions in the Trucial Coast.

This company, with majority UK government ownership, is another of the world's major petroleum producers and distributors. Reserves are mainly in the Middle East and refining and marketing largely in Europe. It holds concessions in Algeria and Libya.

h. Cie. Francaise des Petroles

i. 23.75 percent in Iraq Petroleum Company Ltd. and its associated companies.

ii. 6 percent in Iranian Oil Participants Ltd.

iii. 33 1/3 percent in Abu Dhabi Marine Areas Ltd. and Dubai Marine Areas Ltd. both of which hold offshore concessions in the Trucial Coast.

This company, in which the French Government has a large minority stock interest, operates mainly in the Middle East, North Africa and Europe. Its holdings include a 50 percent interest in Algeria's most important oil field, Hassi Messaoud.

SMALLER

i. American Independent Oil Company (AMINOIL)

i. 100 percent in concession granted by the Shaikh of Kuwait covering his undivided half interest in Kuwait-Saudi Arabia Neutral Zone onshore area.

ii. 0.832 percent in Iranian Oil Participants Ltd.

This company was set up by a number of smaller US oil companies and individuals to engage in petroleum exploration and development abroad and to transport oil.

j. <u>Getty Oil Company</u>

i. 100 percent in the concession granted by the King of Saudi Arabia covering his undivided half interest in the Kuwait-Saudi Arabia Neutral Zone onshore area.

ii. 0.417 percent in Iranian Oil Participants Ltd.

Getty Oil Company and AMINOIL operate jointly in the Neutral Zone. Getty has additional small interests in Iran through its part ownership of Tidewater Oil Company.

k. <u>Richfield Oil Corporation</u>

i. 50 percent working interest in concession held by Dhofar-Cities Service Corporation covering the Dhofar Province of Muscat and Oman.

ii. 1.250 percent in Iranian Oil Participants Ltd.

l. <u>Cities Service Company</u>

This company's wholly-owned subsidiary, Dhofar-Cities Service Corporation has 50 percent interest in concession covering the

Dhofar Province of Muscat and Oman. Cities Service Company also holds concessions in Algeria.

NEWCOMERS

m. <u>Standard Oil Company of Indiana</u>

This large, integrated company operates mainly in the US. Its foreign interests include offshore concessions in Iran and concessions in Algeria and Libya.

n. <u>Ente Nazionale Idrocarburi (ENI)</u>

This company, controlled by the Italian Government, has a 50 percent interest with National Iranian Oil Company (Iranian Government-owned) in certain offshore and onshore concessions in Iran. It also has interests in Egypt and concessions in Libya and other North African countries. It is an important supplier of petroleum in Italy where it has a monopoly over natural gas production and controls some petroleum refineries.

o. <u>Japan Petroleum Trading Co. Ltd.</u>

This Japanese company, operatin through its subsidiary, the Arabian Oil Company, holds two concessions, covering the Kuwait-Saudi Arabia Neutral Zone offshore area, from the Shaikh of Kuwait and the King of Saudi Arabia for their respective undivided half interests.

APPENDIX IV

OWNERSHIP OF PRINCIPAL MIDDLE EAST PRODUCING COMPANIES

I. IRANIAN OIL CONSORTIUM

British Petroleum Co.	40%
Royal Dutch-Shell	14%
Standard Oil (New Jersey)	7%
Standard Oil (California)	7%
Gulf Oil Co.	7%
Texaco	7%
Socony Mobil Co.	7%
Cie. Francaise des Petroles	6%
Smaller US Companies	5%

II. IRAQ PETROLEUM CO.

British Petroleum Co.	23.75%
Royal Dutch Shell	23.75%
Standard Oil (N.J.) and Socony Mobil	23.75%
Cie. Francaise des Petroles	23.75%
Gulbenkian Interests	5%

III. KUWAIT OIL CO.

Gulf Oil Company	50%
British Petroleum Co. Ltd.	50%

IV. ARABIAN AMERICAN OIL CO.

Standard Oil Co. (New Jersey)	30%
Standard Oil Co. of California	30%
Texaco	30%
Socony Mobil Oil Co.	10%